# FYI – For Your Information

### Sales Taxability of Tips and Gratuities

#### **GENERAL INFORMATION**

Tips and gratuities are payments that are separately paid to persons providing a service. Example: server, waiter, or waitress.

## WHEN SHOULD THE TIP BE EXCLUDED FROM THE SALES TAX CALCULATION?

Tips and gratuities are not taxable when they are left on the table or location where the service took place or when they are added to the charge receipt after the price and tax are calculated. [Reg. 39-26-104.1 (e)]. Tips and gratuities **are not** subject to tax when all of the following apply:

- 1) Tips/gratuities are separately stated on the bill and are optional for the customer.
- 2) No portion of the tip/gratuity is retained by, or for the profit of the business.
- 3) Tips/gratuities are given to the persons providing the service.

For a large group, if the tip is separately stated and meets all of the above requirements **and** the customer has the option **not** to pay the tip, the tip should not be included in the sales tax calculation.

### WHEN SHOULD THE TIP BE INCLUDED IN THE SALES TAX CALCULATION?

Sales tax must be paid on tips and gratuities that are included in the cost of food served by restaurants, banquet facilities, hotels and caterers, or in the cost of services provided. Tips and gratuities **are** subject to tax when:

- · they are not separately stated, or
- they are collected by the employer and distributed as wages, or
- any portion is retained by the business, or
- the business uses them to compensate other persons and not the service providers.

If a restaurant or other business is providing services for a large group and the tip, gratuity or "service charge" is included in the charge, the tip must be included in the sales tax calculation.



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#### **FURTHER INFORMATION**

See FYI Sales 24 "Eating and Drinking Establishments."

FYIs and commonly used forms are available on the Web at www.taxcolorado.com

For additional sales tax information visit the "Tax Information Index" at www.taxcolorado.com

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